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DIRECTORATE OF  
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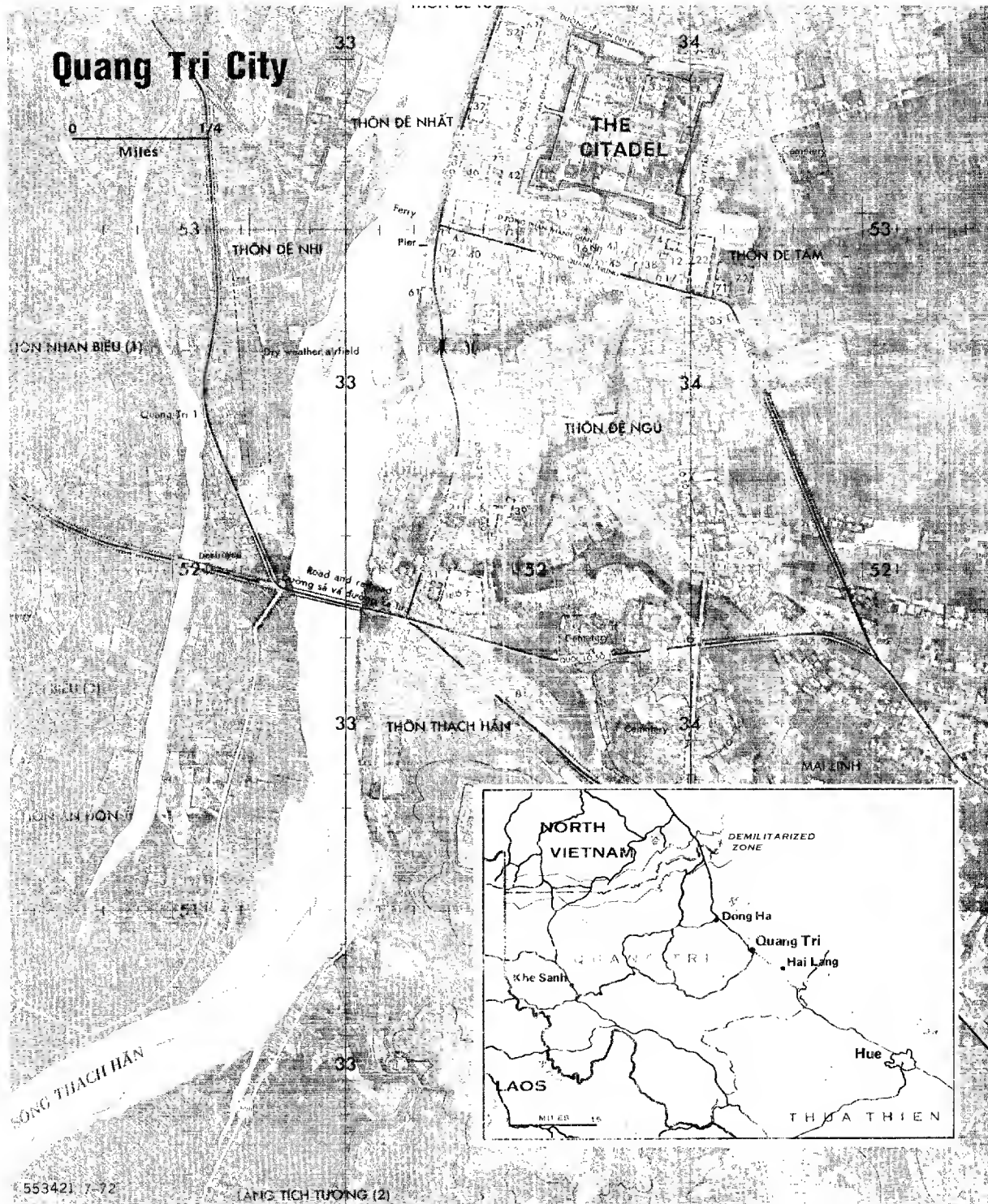
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**SOUTH VIETNAM:** Government forces in Quang Tri City are making limited progress.

South Vietnamese Marines are nearing the Quang Tri City citadel on two sides but continue to be hampered by heavy Communist artillery shellings and solidly fortified enemy positions. Late reports indicate that the South Vietnamese are now attempting to flank the citadel on the west to block the flow of supplies to North Vietnamese forces in the city.

Farther south, the Communists continue to direct substantial artillery and mortar fire against major government strongpoints west of Hue. In western Quang Ngai Province, Son Ha district capital was occupied by the enemy on 3 August after changing hands at least twice. Southwest of Pleiku City in the central highlands, the Communists yesterday attacked and overran a small hamlet. In the delta, scattered fighting continues throughout Dinh Tuong Province.

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EUROPEAN COMMUNITIES: Although a final decision will be made only in September, it now seems likely that the summit meeting of the EC Ten will take place as scheduled in October. The summit will emphasize monetary matters, as the French have wished.

Paris is again bullish on the summit prospects following last week's meeting in Italy between Pompidou and Italian leaders. The meeting culminated a round of talks between the French President and leaders of most of the present and prospective EC member countries in which Pompidou variously threatened and cajoled to get support for a summit "French style." His efforts, although successful only in part, have tended to strengthen bilateral diplomacy--rather than the EC's institutions--as the means to advance community projects.

France has insisted in these talks that progress on economic and monetary union is the best way to demonstrate a successful summit. What this may amount to in practice is still not clear, but one possibility is the creation of a European fund for monetary cooperation. Several EC committees have jointly prepared a report on this project that will presumably be presented to the finance ministers of the Ten when they meet in Rome in September along with the foreign ministers to draw up a final summit agenda. A re-evaluation of gold for official intra-EC transactions--a subject raised at the French-Italian meeting--also may come up for community discussion in September.

Any summit decision on international monetary reform probably will depend on what happens at the IMF ministerial session in Washington, also in September. Concern over future large injections of dollars into the international system persists in Europe despite the recent intervention of the US Federal Reserve on behalf of the dollar.

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Any declarations at the summit on relations between the community and other industrialized countries, Eastern Europe, and less-developed countries now seem likely to be bland. Paris remains unwilling to make any special reference to relations with the US, fearing that some cooperative mechanism with the US would interfere with EC solidarity.

Only minimal commitments to strengthen the institutions of the community can be expected at the summit. The French may permit some vague reference to the review functions of the European Parliament, but it appears that most of France's partners are reconciled to postponing any real battles over increased "federal" powers for another day--at least until well after the EC is in fact enlarged. France has persisted in its campaign to locate any new political secretariat in Paris, and in the process has conceded that such a body should be more than a paper-pushing agency. Whether this concession is enough to overcome the reluctance of the British, Dutch, and Belgians in particular, to establishing a rival to the community's center in Brussels remains doubtful, however.

The EC Commission as well as some of the Ten have been hoping that agreement could also be reached at the summit to extend community jurisdiction over areas not specifically mandated in the treaties. The French position on this has been ambiguous, but the Italians gained a French commitment to improve community coordination of regional development policies. The Commission itself wants to have the summit authorize community industrial, research and development, and environmental programs. [REDACTED]

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UK: The government's declaration of a state of emergency over the national dock strike has overshadowed other efforts to grapple with the underlying causes of labor-management strife.

The state of emergency, the fourth since the Tories took over in June 1970, gives the government wide powers to maintain essential public services. The government probably will form special committees in the port cities to recommend action. So far, there have been no signs that troops will be used to move vital supplies off the docks.

There is a fair chance that a new conciliatory effort by the labor-management committee investigating the dispute will succeed. The committee's original report--rejected by the dockers--recommended a liberal voluntary severance pay scheme and preference to dockers over warehousemen in handling containerized cargo shipments. The 18 union delegates who abstained in last week's 39-29 strike vote hold the key and now might favor a return to work. Even if the union accepts a settlement, it is unlikely that the dockers would return to work until late next week at the earliest.

Earlier this week, a broad discussion on the economy between representatives of the government, the Trades Union Congress (TUC), and the Confederation of British Industries (CBI) got off to a good start. The CBI and the TUC, after bilateral negotiations, announced the establishment of a voluntary conciliation and arbitration service. The new service will be independent and the unions hope that it will eventually make the government's own conciliation service unnecessary. The speed with which both sides reached agreement underlines their deep concern over Britain's troubled industrial relations as well as their interest in avoiding use of the controversial Industrial Relations Act.

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The Heath government is hopeful that these discussions will lead to some sort of voluntary arrangements limiting wage and price increases. The effectiveness of these arrangements would depend largely on whether union leaders could sell the terms to their highly independent shop stewards--the instigators of much wildcat industrial activity.

Speculation is growing that the government may soon try to amend the more contentious sections of the industrial relations law, and this might provide the necessary calm to work toward an over-all settlement.

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INTERNATIONAL LABOR: The British have reacted negatively to ILO Director-General Jenks' suggestion that an ILO European regional conference be held next April.

Jenks is seeking the views of West European governments on a Soviet proposal to him that such a conference take place before a Conference on Security and Cooperation in Europe (CSCE) and include the East Germans as official observers. If a date could be agreed upon for the ILO regional conference, Moscow might well propose that an all-European trade union conference be held concurrently. An all-European conference has been a pet project of the Soviets since 1969 as part of their campaign for a CSCE. While Moscow has long disagreed with the way the ILO is structured, it has not hesitated to use the organization to press its objectives.

Even though leaders of West and East European trade unions agreed informally last year that an all-European trade union conference should be held--provided it restricted itself to discussing economic and social matters--the governments of France and West Germany are likely to share the reservations the British expressed to Jenks. Primarily, they think that convening the ILO regional meeting, and possibly an all-European conference, before a CSCE would be a needless complication. They also believe that it is an inappropriate time to raise the question of East German participation and that the high cost of the conferences would be a waste of the ILO's limited resources.

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KOREA: Pyongyang appears to have been caught off guard by Seoul's willingness to move ahead rapidly with the Red Cross talks and is now seeking to delay the discussions.

In recent meetings with their South Korean counterparts, North Korean Red Cross officials reneged on their original agreement to commence plenary talks on 5 August and raised new proposals that will probably delay the opening of the plenary sessions for several weeks. Pyongyang may have proposed the early starting date anticipating that the cautious South Koreans would not make a rapid positive response and would thus be at a propaganda disadvantage. Seoul's quick acceptance of the date and its eagerness to move the talks along apparently found the North Koreans ill-prepared to cope with the prospect of large numbers of South Koreans arriving in Pyongyang on short notice.

Another North Korean motive for its action may be to delay the opening of the talks until consideration of the Korean question in the UN next month. The North Koreans may see such a delay as undercutting the main argument South Korea and its supporters are using to get a postponement of the Korean question this fall--that progress in North-South contacts would be jeopardized by a UN debate.

The North Koreans will bear the onus for delaying the talks and have left themselves open for propaganda criticism from the South. Nevertheless, Pyongyang apparently believes it is more in its immediate interest to keep the talks limited in scope and pace, meanwhile advancing its case in the UN.

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**GUYANA-CUBA:** Prime Minister Burnham will probably use the non-aligned foreign ministers conference, to be hosted by Guyana from 8-11 August, to announce formally the establishment of diplomatic relations with Cuba.

Burnham believes that his standing in the third world may be enhanced through such an exchange. Although there has been limited trade and cultural contacts between the two countries in past years, little material benefit is expected to accrue to either, but the propaganda gains will be immense.

Cuba will almost certainly respond favorably to what is apparently a Guyanese initiative. Guyana's action will raise to five the number of Western Hemisphere nations having full diplomatic ties with Cuba. Less than a month ago, Peru joined Mexico and Chile by re-establishing relations with the Castro government; Canada has had full relations since before Castro took power.

This latest move will probably put additional pressure on other Caribbean nations such as Trinidad-Tobago and Jamaica to develop closer ties with Cuba. Although Guyana is not an OAS member, this development will continue the steady erosion of the 1964 sanctions by further reducing Cuba's isolation in the hemisphere.

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ITALY: The government's proposed budget for 1973 calls for a continuation of expansionary policies in the face of Italy's worst postwar recession. Expenditures are slated to increase by 18.5 percent, while receipts are expected to rise by only 12.6 percent. As a result, the budgetary deficit would reach a record \$6.2 billion, almost double this year's deficit. The progressive deterioration in the growth of output, demand, and employment seems to have halted, but even a moderate recovery probably will not occur this year. Parliament will not begin its debate on the budget until this fall, and final approval is not likely until next spring.

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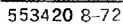
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CANADA: Ottawa will begin on 1 September to identify imports from US companies that benefit from tax deferral measures. The use by these companies of domestic international sales corporations (DISCs) enables them to defer payment of taxes on part of their export profits, thereby improving their competitive position. Ottawa contends that the DISC violates the General Agreement on Tariffs and Trade, and is concerned about the possible adverse impact of the program on domestic Canadian manufacturers. The government's 1972-73 budget includes a lower tax rate and accelerated depreciation to compensate manufacturing companies for the competitive advantages offered by DISC.

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VIETNAM: A New Enemy Offensive Shaping Up

A review of current evidence indicates that Communist main force units may try to initiate a substantial and coordinated offensive in several areas of South Vietnam, perhaps within the next few weeks. Although the attacks probably will not be on the scale of the Communist thrusts in early spring, Hanoi will be hoping to secure battlefield gains that will have an influence on domestic politics in the US and strengthen their bargaining hand at Paris. [REDACTED]

[REDACTED] the enemy's top southern command, COSVN, had ordered another strong round of attacks to try to force a settlement of the war on Communist terms, and that August and September would be important months because US election fervor would be rising.

The recent deployment of almost two additional enemy infantry divisions from North Vietnam into northern Military Region (MR) 1 and the steady, additional deployment of enemy units into the northern delta, suggest that these two areas will be the focal points of the campaign. Renewed assaults around An Loc and in the provinces northwest of Saigon also appear in prospect, along with a substantial step-up in enemy operations in sectors of the central coast. In the western highlands, however, where the Communists laid siege to Kontum this spring, there are few signs of enemy planning for substantial new attacks.

The Quang Tri - Hue Front

The movement of elements of two additional North Vietnamese divisions--the 312th and 325th--into northern South Vietnam to augment four enemy divisions already there began in mid-July, shortly after the South Vietnamese counteroffensive into Quang Tri Province. There had been earlier indications that the North Vietnamese were planning to commit at least elements of these two divisions to

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the northern front. The South Vietnamese counter-offensive appears to have forced Hanoi's hand. The current location of the additional divisional elements suggests that the North Vietnamese plan to use them in a vigorous counterpunch at the South Vietnamese units strung out along Route 1 to Quang Tri City, hoping to cut off and defeat these government troops, who are some of Saigon's best.

So far, there has been little evidence that the Communists are augmenting their infantry force to the west of Hue, an action the enemy would presumably consider necessary if a full-scale attack on the city were planned for the near future. The Communists have recently stepped up their attacks against government positions in Thua Thien west of Hue, where two government fire support bases have changed hands several times within the past month. Enemy gunners are within artillery range of the old imperial capital, and it appears that the Communists would like to push back the defending South Vietnamese 1st Division.

Similar enemy strategy appears to be involved in Quang Nam Province to the south, where another division-sized enemy force--the 711th Division--is pressing from the west against government outposts and district strongpoints in Que Son and Duc Duc districts. The Communist intent probably is to keep friendly forces tied up and to stretch government resources as thin as possible. Earlier in the offensive, the Communists employed a similar strategy in Quang Nam Province to back their operations to the north. The North Vietnamese may hope that increased attacks in Quang Nam Province will keep South Vietnamese units there from reinforcing the northern battlefield should the fighting begin to turn against the government there.

#### The Delta and the Saigon Area

The Communists have massed the largest concentration of main force units ever seen in the northern delta. At least five infantry regiments and elements of an artillery regiment already are there,

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and possibly two more infantry regiments are on the way. Most of the infiltrating units, including the enemy's 5th Division, have been heading for a base camp in the northwestern triborder area of Dinh Tuong, Kien Tuong, and Kien Phong provinces. [REDACTED]

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[REDACTED] heavier enemy action is being planned for August and September in the northern delta.

In moving substantial forces into this area, the Communists appear to have several objectives in mind. It is a long-time Communist stronghold which, in the past, has provided relatively good protection and good access by waterway to resupply from Cambodia. The area lies close to Route 4, the government's main road link to the delta, and to a variety of canals over which food is moved to Saigon. If the Communists could regularly interdict the road and water routes through the area for an extended period, they would seriously disrupt the government's ability to support its forces in the southern delta provinces, and thus facilitate additional gains by their own units farther south. The base area also provides a favorable position for attacks around and on My Tho, a strategic provincial capital.

Despite reports that increased attacks are being planned for the provinces to the northwest of Saigon, particularly in Tay Ninh and Hau Nghia, to date there are few indications that the Communists are moving additional main force units into these provinces. They would need more manpower to mount a telling offensive there. Most enemy forces involved in the heavy fighting earlier in MR 3 have recently seen only limited action. Most of the units from the Communist 7th and 9th divisions probably are still in the An Loc area. It seems likely that these units would again be used in Binh Long

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or Binh Duong provinces in the hope of preventing Saigon from diverting additional forces north to MR 1 or reinforcing threatened units elsewhere.

#### Central Vietnam

Present main force dispositions suggest that enemy activity in the western highlands will not increase substantially in the coming weeks. Many of the units previously engaged in the fighting in Kon-tum and Pleiku provinces have moved out of the area. On the coast, however, government efforts to recapture enemy-held areas in northern Binh Dinh Province suggest that fairly hard fighting lies ahead. Prisoners [ ] claim that the Communists plan stronger action along the heavily populated central coast in August and September.

#### Prospects

The renewed Communist offensive is likely to be smaller and more selective than the thrusts in April and May. With the heavy rains and flooding in some areas, resupply difficulties may limit Communist abilities to sustain a heavy pace of fighting. This spring's combat also has reduced the strength and fighting ability of many enemy units. The newly trained troops that Hanoi sent south probably have offset troop losses, but even after refitting, the performance of these units will suffer from the loss of experienced leadership cadre and specialists.

Despite such limitations, the Communists apparently believe that heavy action in the coming weeks offers a possibility of at least limited tactical gains as well as significant political impact. Some evidence of the scope of enemy plans is appearing in current North Vietnamese propaganda on the war. Hanoi's Defense Minister Giap recently claimed that "favorable opportunities" now exist in the South to push forward on the battlefields. Radio and press commentaries are emphasizing both Quang Tri and the delta as theaters of operation. [ ]

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